



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

July 22, 1999

To: Chief Executive Officers of National Banks

I am writing to congratulate you on the fine work you have done to date to prepare for the century date change. The Office of the Comptroller of the Currency (OCC) and the other federal financial institution regulators are very pleased with the U.S. banking industry's progress.

I am also writing to provide you with information on the OCC's Year 2000 supervision program for the third and fourth quarters of 1999 and preliminary plans for the century date change rollover weekend. The FFIEC member agencies will be sending similar information to the service providers and software vendors they supervise. Also, I have attached to this letter guidance and procedures regarding liquidity planning, clean management, and conversions. We recently sent this information to our examiners and thought you might find it useful.

Third and Fourth Quarter Examinations and Reviews

During the third and fourth quarters, OCC examiners will:

- Review your institution's contingency planning efforts and complete remaining Phase II business resumption contingency planning examination work steps. (See Advisory Letter 99-8, "Additional Year 2000 Guidance on Contingency Planning" for recent guidance on the validation phase of business resumption contingency planning.)
- Assess your institution's liquidity planning and cash management planning efforts.
- Review controls your bank has in place to ensure that systems that are Year 2000 ready remain so when changes are made to these systems ("clean management").
- Encourage your management to contact Assistant Deputy Comptrollers (ADCs)/Examiners-in-Charge (EICs) immediately should your institutions experience Year 2000-related operating or funding problems, including sustained cash withdrawals or credit line advances.
- Complete our examination procedures for contingency planning, liquidity planning/cash management, and clean management.
- Complete appropriate examination procedures, shortly after any planned systems conversions that your institution undertakes during the third and fourth quarters.
- Review and update corrective actions on any outstanding items.

The recent Year 2000 readiness survey conducted by Gallup on behalf of the federal banking agencies underscored the importance of banks providing information to their customers (see OCC AL-99-9). The survey revealed that bank customers want to hear more from their own

banks about their Year 2000 efforts. Examiners will be encouraging you to take a more active role in communicating your Year 2000 preparations and progress with your customers.

Century Date Change Rollover

We sent our examiners preliminary guidance on the supervision and monitoring activities that we expect to take place immediately before and after the century date change. We will provide more detailed information later in the year. Because we are aware of your concerns about reporting burdens, the FFIEC member agencies are working together to minimize the amount of information we will request to monitor banks' operations during the century date change rollover period.

The OCC plans to monitor bank operating performance closely from December 22, 1999 through January 7, 2000. On December 31, 1999, and January 1, 2000, we plan to have examiners onsite at the largest national banks as well as certain other banks and service providers and software vendors. All other institutions will be contacted by OCC ADCs, EICs, or their designees, during the rollover weekend to identify any Year 2000-related operational or liquidity problems and to ensure that mission-critical systems are operating successfully.

We will be asking examiners to provide us data on banks' performance on January 1 and 3 (or January 3 and 4 for banks that are not open on January 1). This information will help us to monitor and report on the status of the national banking industry and to quickly identify problems and take corrective action if needed. In the fourth quarter of this year, we will finalize the specific data we will be collecting and will share those data requirements with you.

Your examiner will be contacting you to ascertain the name and location, or telephone number, of the individual to contact over the weekend. We expect the vast majority of institutions will be contacted by telephone.

If you have any questions or concerns, please contact your ADC, EIC, or portfolio manager.

Sincerely,

John D. Hawke, Jr.
Comptroller of the Currency

Liquidity Planning and Cash Management Guidance and Procedures

Overview

Liquidity risk is present to some degree in all financial institutions and is routinely monitored and managed by bankers. However, many Year 2000 issues could compound liquidity risk and complicate monitoring processes both for bank management and for regulators. Concerns may arise about the bank's Year 2000 vulnerability and may result in customers:

- Withdrawing cash if they are concerned about the safety of cash or their ability to access it;
- Liquidating investments and depositing funds into their bank accounts; and
- Drawing down their credit lines in response to concerns about access to cash or funding during the century date rollover.

These risks should be identified and mitigated to the extent possible.

Procedures

Complete the following steps only if they have not been addressed in previous supervisory activities.

1. Evaluate whether the liquidity funding plan includes:
 - Identification of key liquidity personnel and resources;
 - Identification of sources of liquidity;
 - Estimates of liquidity needs, including an historical funds usage analysis and estimates of cash demand due to the century date change;
 - Identification of backup liquidity sources;
 - A process for monitoring liquidity prior to, during, and after the century date change;
 - Security issues involving vault limitations, bond/insurance coverages, armored car and other cash delivery services, etc.;
 - A process for currency delivery and handling;
 - A discussion of customer communication; and
 - Employee training/education.
2. Determine that the board of directors approved the liquidity contingency funding plan.

3. Determine that the bank performed an analysis of cash needs, which is reasonable and acceptable for the bank's size and complexity. Evaluation criteria include the following:
 - An analysis of cash needs for the periods prior to, during, and immediately after the century date change; and
 - At least quarterly reviews of the bank's cash position and future cash needs prior to June 30, 1999, and monthly reviews after June 30, 1999.

Clean Management Guidance, Processes, and Procedures

Overview

Well before the actual century rollover, institutions will have assessed, remediated, validated, and implemented Year 2000-ready mission-critical systems as part of their Year 2000 project management plan. From the time institutions complete the implementation phase through the century date rollover, they should practice "clean management." "Clean management" is the process of starting with a system that is Year 2000 ready ("clean") and taking the appropriate steps to make sure that it stays Year 2000 ready ("management"). For example, when a software vendor sends out a system update to address operational problems, the bank needs to ensure that any date-related changes are tested for Year 2000 readiness prior to implementation.

Please review the following with bank management during your upcoming supervisory activities. Complete only the steps that have not been addressed in previous supervisory activities.

Procedures for Banks

1. Evaluate the bank's processes to ensure that its systems remain Year 2000 ready following enhancements or modifications. Consider the following:
 - a. Has the bank determined if there will be a new release or patch for any of its mission-critical systems prior to December 31, 1999?
 - b. How will the bank ensure that any date-related changes to the system have been appropriately tested? (This can be accomplished either through reviewing the service provider/software vendor's testing or the bank conducting its own testing of the changes.)
2. Ensure that all testing, including the review of the test results, will be completed prior to December 31, 1999.

Procedures for Service Providers and Software Vendors

1. Evaluate the company's processes to test that its systems remain Year 2000 ready following enhancements or modifications, considering the following:
 - a. Has the company determined if there will be a new release, patch, or any changes for any of its mission-critical systems prior to December 31, 1999?
 - b. How will the company ensure that any date-related changes to the system have been appropriately tested?
 - c. Will all testing, including the review of the test results, will be completed prior to December 31, 1999?
2. Evaluate the company's progress in facilitating its clients' clean management processes by considering the following:
 - a. Determine if the software vendor plans to distribute a new release or system patch prior to December 31, 1999. If so, determine the scheduled date of the release or patch and whether this has been communicated to clients.
 - b. Determine if the service provider/software vendor will provide clients a detailed description of the changes to the system in order for clients to conduct specific tests of the changes.
 - c. Determine if the service provider/software vendor will provide clients test results of any date-related changes so those clients could rely upon this information and not have to conduct their own testing.
3. Determine if the service provider/software vendor is discontinuing support of any product prior to January 1, 2000. If so, determine which product and when support is scheduled to end.

Banks Undergoing System Conversions

Overview

The OCC has stated on several occasions that we will review the Year 2000 implications of 1999 conversions to new service providers or software vendors on a case-by-case basis. Whether to convert to a new system in 1999 is a decision for the bank's management and board of directors. However, the OCC expects bank management will adopt risk management controls that minimize Year 2000 operational and conversion risks associated with conversions of mission-critical systems in late 1999. Effective controls include: comprehensive due diligence; review of prospective servicer's/vendor's Year 2000 efforts and past performance in meeting conversion targets; analysis of Year 2000 testing results of the new service or system; and development of a realistic contingency plan.

If the bank is planning to convert to a new servicer or vendor by the end of the year, examiners should determine that the bank:

1. Assessed the level of risk involved in the conversion:

a. For Year 2000 risk, determine whether:

- Sufficient testing of the new system has been performed to verify Year 2000 readiness;
- Management has obtained and reviewed test results for the new system prior to initiation of the conversion;
- The bank determined if the option is available to test portions of the new system prior to completion of the entire conversion;
- Management made plans to test or retest other mission-critical systems that will interface with the new system; and
- The bank has plans to test for Year 2000 readiness prior to signing off on the conversion.

b. For conversion risk, determine:

- Whether the conversion is within the same servicer/vendor family (e.g., from the vendor's Product A to the same vendor's Product B);
- Whether there is an appropriate remediation contingency plan;
- What the bank will do if the conversion fails or does not meet anticipated time frames;
- That management has taken into consideration specific time constraints. For example, if the contingency plan is to remain on the original system, does the bank have time to renovate the original system?
- The servicer's/vendor's track record of converting other clients on time and with minimal problems;
- Whether the servicer/vendor has experience with the bank's original system; and
- Whether the bank plans to perform any customization to the system prior to completion.

2. Managed the conversion by determining that:

- Management has obtained the new servicer's/vendor's Year 2000 project plan;
- Management has obtained the new servicer's/vendor's test plan and incorporated the pertinent points into the bank's own test plan;
- Management has obtained a signed contract;
- Management has appropriately communicated with the board of directors. This would include initial reporting to the board upon making the decision to convert and subsequent continuous reporting to the board regarding the status of the project;
- The conversion is from one Year 2000 ready product to another;
- Management gave sufficient consideration to postponing the conversion until after the century date change; and
- Management has a remediation contingency plan in the event the conversion is not successful.